

7 February 2002

THE PRELIMINARY FINANCIAL RESULTS OF 2001
‘THE FIRST YEAR IN FULL COMPETITION’

Eesti Telekom, the leading provider of telecommunication services in Estonia, today announces its results for the financial year ending 31 December 2001.

Financial highlights

	2001	2000	Gain/loss %
Total revenues, mEUR	274	254	8
EBITDA, mEUR	124	133	-7
EBITDA margin, %	45	52	
EBIT, mEUR	51	71	-28
EBIT margin, %	19	28	
Profits before taxes, mEUR	52	70	-25
Net profits for the period, mEUR	50	72	-30
EPS, EUR	0.37	0.52	-30
No. of A- shares	137,383,178	137,383,178	
Investments ^{*)} , mEUR	62	81	-23
Net gearing, %	-9.0	-6.9	

^{*)} excl. purchase of commercial papers

Commenting on these financial results, Chairman Jaan Männik stressed the following: “In 2001, the Estonian Telekom group proved its adaptability – to deal with the changes in the market environment, to go along with technological innovations, and to comply with the diversifying needs of its customers.”

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CHAIRMAN'S STATEMENT

The year 2001 was a complicated and challenging one for the Eesti Telekom group. The market opened up for full competition, so that, especially during the first half of the year, we had to act under the extremely strong price pressure created by the new entrants. At the same time, the regulatory environment was in continuous change, resulting in the implementation to several new limitations for the dominant market operators. Now, at the beginning of 2002, I would say that we successfully faced all the challenges that we were confronted with, and much more stability is expected from the coming year.

In addition to dealing with our competitors, and adapting to regulations, several new technological developments were introduced. GPRS was launched into commercial use. Penetration of ADSL lines rose above the Western European average. Both operators of the group launched several new, innovative services in traditional, as well as new service areas. Co-operation with domestic and foreign telecommunication and media companies has allowed expansion of our activities into areas outside traditional telecommunications, which is very important, taking into account the limited size of the Estonian market.

Revenues, expenses, and profits

In 2001, consolidated revenues of the Eesti Telekom Group amounted to 274 mln EUR, showing a rise of 8%, compared to the year 2000. EBITDA of the Group was 124 mln EUR, down by 7 % with an EBITDA margin of 45%. Operating expenses grew by 24%, compared to the year 2000, to 150 mln EUR. Net profit of the Eesti Telekom Group in 2001 amounted to 50 mln EUR, showing a fall of 30 %. Earnings per share were 0.37 EUR. The consolidated financial results have been influenced by several unusual factors:

- An insolvent company, OÜ Albufent, had filed a lawsuit against AS Eesti Telefon in the amount of 3.5 mln EUR. On 6 February 2001, OÜ Albufent submitted an application to the Tallinn City Court to unconditionally drop the claim against AS Eesti Telefon. On 19 February 2001, the Tallinn City Court issued a decree ending the proceedings in the aforementioned case. But over the years, AS Eesti Telefon had built up a monetary reserve, amounting to 2.9 mln EUR, to deal with this claim. Since the case was dismissed, the company was now able to release this sum through the profit and loss account.
- On 11 April 2001, AS Eesti Telefon concluded an agreement for the sale of shares to Eniro Eesti AS. In accordance with the agreement, AS Eesti Telefon sold its 60% of AS Teabeliin to Eniro Eesti AS, a subsidiary of Eniro AB. The sales price of the shares was 2.8 mln EUR. The capital gain from the transaction, in the amount of 2 mln EUR, is accounted as revenue from subsidiaries.
- In accordance with IAS 12, the principles of accounting for the income tax calculated on dividends have changed. Until now, income tax on dividends was subtracted from the retained profits. Starting in 2001, the tax is accounted through the profit and loss account. To ensure accurate comparability, the financial statements for 2000 have been adjusted accordingly.
- New interconnection agreements concluded at the beginning of 2001, between Eesti Telefon and mobile operators, have had significant influence on the total revenues and expenses of both the Eesti Telefon Group and the EMT Group.
- Following first year of competition Eesti Telefon has reviewed its assets under IAS 36 and made a 6.4 mln EUR write-off.

The year 2001 was a challenging one for AS Eesti Telefon, the fixed line operator of the Group. The fixed communications market became wide open for competition on 1 January 2001. Several other operators entered the market, causing a significant reduction in international calls tariffs. However, AS Eesti Telefon faced the challenge by making its tariffs more flexible, with the introduction of bonus packages, and with various other promotional activities. In the middle of the year, the rate of the tariff reductions slowed down, and market shares of Eesti Telefon stabilised. At the end of December 2001, the company estimated its market share of total call minutes, domestic call minutes, and mobile minutes to be 91%, 90%, and 75% respectively. Eesti Telefon estimated its market share of international call minutes to be 70%. Another step for maintaining customers was taken in January 2002. New price-packages were introduced, which allow

customers with different communication needs to choose between different combinations of monthly fee and minute tariffs, thus optimising their expenditures on communications.

AS Eesti Telefon does not want to limit its activities with traditional voice communications. Several new services were launched in 2001. Eesti Telefon has made a powerful entry into the rental services and IT solutions market. Based on the ASP (Applications Service Provider) business model, the company offers analytical software Atlas Oraakel, communication and teamwork solution Atlas Maestro, Internet-based time-scheduling application Atlas E-administrator, equipment hosting service Atlas Tele-hotel, rental space for video and audio records Atlas Real-Time, Web-based accounting software rental service B24, rental of e-shopping applications, IP-based voice communication solutions, and call-handling systems. During year 2001, Eesti Telefon started co-operation with several foreign partners: Wicom Communications, SAS, Microsoft, Infonet.

Among the main revenue categories of AS Eesti Telefon, domestic call revenues grew by 1%, revenues from mobile communications by 17%, and dial-up revenues by 21%, compared to 2000. Revenues from data communications and Internet connections grew by 144%. Revenues from international calls fell by 46%, and main line revenues by 6%.

To increase its efficiency, Eesti Telefon has also reviewed its cost structure. As a result, the decision was made to sell 17 office buildings and technical facilities with a total area of 21,500 square metres. Most of these premises were analog exchange premises, which had become obsolete as a result of digitalisation. Also, the current head-office of the company will be put up for sale. Eesti Telefon expects to save 0.3 mln EUR per year by cutting operating expenses with this sale.

In order to promote higher efficiency, and to be able to concentrate on its main activities, Eesti Telefon turned over all its customer service activities to Hallo!, a chain store belonging to AS Telefonipood, a 100% subsidiary of Eesti Telefon. At the same time, the number of Eesti Telefon customer service centres doubled to 39.

The number of employees of AS Eesti Telefon fell to 1,552 by the end of the year 2001 (December 2000:2,379).

The consolidated total revenues of the Eesti Telefon group in 2001 amounted to 184 mln EUR, a rise of 7 %, compared to the year 2000. The increase in interconnection revenue amounted to 13 mln EUR. Operating expenses of the group rose by 30 %, to 127 mln EUR, of which, interconnection expenses amount to 27 mln EUR. The EBITDA and the net profit of the Eesti Telefon group were 56 mln EUR and 3 mln EUR respectively, down by 24 % and 88 %.

A survey of the Estonian Communications Board shows that by the end of 2001, mobile penetration in Estonia had reached 52%. The same source estimated AS EMT's (the mobile operator of the Eesti Telekom Group) market share to be 54%. AS EMT itself reported its number of clients at the end of 2001 to be 382.7 thousand. The net growth in the number of customers in 2001 was 54.3 thousand. By the end of December 2001, the company had 127 thousand prepaid customers (net growth of 18.6 thousand) and 255.7 post-paid customers (net growth of 35.7 thousand). Monthly ARPU in 2001 was 28.9 EUR per customer (28.7 EUR per customer in 2000).

An important development in 2001 was the launch of GPRS. The feedback from customers has been positive. Also, several new value added services became available for the operator's customers. With the orientation to younger customers, co-operation was started with several Internet portals and TV channels. It became possible for customers to load logos or sounds from the Internet, send SMS from a portal, or to a TV SMS-chat. M-parking and m-commerce were developed further. EMT started to make it possible for appliances to be remote controlled by mobile telephone.

The total revenues of the EMT group amounted to 142 mln EUR, up by 26 mln EUR or 22 %, of which, interconnection revenues amount to 19 EUR. The operating expenses of the EMT Group were 73 mln EUR, up by 17 mln EUR or 31 %, of which, interconnection fees amount to 10 mln EUR. The EBITDA of

the group amounted to 69 mln EUR (a growth of 14 %). The EBITDA margin reached 48%. The net profit for the year was 49 mln EUR, up by 13 %, compared to the year 2000.

Balance sheet and cash flow

At the end of December 2001, the total assets of the Eesti Telekom group amounted to 271 mln EUR (December 2000: 295 mln EUR). There has been a reduction in both long term and short term debt obligations. In July 2001, AS Eesti Telekom repurchased one-year bonds in the total amount of 6 mln EUR. AS Eesti Telekom made loan repayments, both scheduled and pre-scheduled. At the end of 2001, the net gearing of the Eesti Telekom group was -9 %.

The net operating cash flow was strong, amounting to 111 mln EUR. The total cash flow of the group was -13 mln EUR. The negative total cash flow resulted from financial outflows in the total amount of 63 mln EUR (incl. dividend payouts of 48 mln EUR) and investing activities in the total amount of 61 mln EUR.

Investments

In 2001, the Eesti Telekom group invested, excluding investments into commercial papers, 62 mln EUR in 2001 (23% less than in 2000). The Eesti Telefon group invested 32 mln EUR, the EMT group 29 mln EUR. Resulting from changes in the business environment, in 2001, Eesti Telefon decreased its planned investments by 19 mln EUR. The aim of this reduction was to increase the profitability of investments. The main investments area for Eesti Telefon was ADSL network. The majority of investments made by EMT went into base stations, exchanges, and IT systems.

The number of main lines per 100 inhabitants was 34.9 at the end of December 2001 (December 2000: 35.9). In total, 501,691 Eesti Telefon main lines were in use in December 2001. The number of lines per employee was 321. The digitalisation rate has reached 71.8% (December 2000: 71.2%). By the end of the year 17 thousand ADSL connections were installed, or 1.2 connections per 100 inhabitants.

One of the most important investment areas for AS EMT was GPRS. The GPRS network, as a commercial endeavour, was launched on 1 July 2001. The service can be used everywhere in Estonia where GSM is available. EMT intends to support the development of GPRS in Estonia. In May, a Mobile Applications Initiative Centre was opened at Tallinn Technical University in co-operation with EMT. The centre, the first of its kind in Estonia, is a mobile communications testing environment ideal for personnel training and product development. These facilities are also suitable for designing new GPRS and UMTS networks.

Both subsidiaries of the Eesti Telekom group are also supporting the development of the general telecommunications environment in Estonia. On 16 February 2001, Eesti Telefon, EMT, and two major commercial banks signed an agreement for the establishment of AS Sertifitseerimiskeskus (Certification Centre Ltd.) The centre will provide certification related services, based upon the essential public infrastructure. By statute, the centre will deal basically with certification and timestamps. 0.8 mln EUR have been invested into the founding of AS Sertifitseerimiskeskus, 0.2 mln EUR by each participant in the project. At the beginning of 2002, the Parliament of Estonia made electronic ID-cards compulsory for all Estonian residents, which increased the significance of the PKI project.

On 7 March 2001, several Estonian companies, including Eesti Telefon and EMT, together with the government, introduced the look@world project, aimed at promoting the use of Internet, thereby improving the quality of life in Estonia and the nation's competitiveness in Europe. One aim of the participants is to raise Internet penetration of Estonia, in three years, to 74 %, thus surpassing Finland. Both Eesti Telefon and EMT will invest 1.9 mln EUR into the project during the next three years. Eesti Telefon's main contribution within the framework of the project will be to give access to Internet services to as many people as possible, irregardless of where they live, or their income; establish a permanent Internet connection for non-profit organisations at preferential rates; develop an infrastructure needed for essential consumer services and an Internet environment; and support Internet training programs. EMT's contribution would be to provide access to Internet at all times and everywhere, coordinate co-operation

between the public and private sectors, establish an innovation centre, and support and promote information technological schooling and training programs.

An important investment project in 2002 will be UMTS. The Ministry of Roads and Communications is preparing the necessary legislation for issuing third generation mobile phone service licenses. It is expected that four licenses will be issued in Estonia. The expected launch of the third generation technology will be in 2003-2004.

Regulatory issues

2001 was the first year of full competition in the Estonian telecommunications market. Numerous regulative acts became effective and had to be implemented. Several debates between operators and regulatory authorities rose out of the different interpretations of the acts.

On 13 February 2001, the Estonian Parliament adopted an amendment to the Telecommunications Act, which set the upper limits for interconnection service fees (effective until 31 December 2001) that the major operators could charge. Eesti Telekom considered the stipulating of limits for interconnection service fees (on top of a cost-based pricing requirement) to be unjustified and unfair. Eesti Telefon filed suit to overturn an 18 April ruling of the Communications Board that forced Eesti Telefon to reduce the interconnection service fees which Eesti Telefon was charging other operators, so that the fees would be in accordance with the amendment. Eesti Telefon requested that the Communications Board ruling be suspended for the duration of the case, which the Court refused to do. On 10 December 2001, Tallinn Administrative Court decided in favour of the Communications Board. However, Eesti Telefon had already started to implement the ruling, by discounting its cost-based interconnection service fees. New interconnection contracts had already been concluded with some operators.

On 21 December 2001, the Communications Board ordered AS Eesti Telefon to lower the regional level interconnection tariffs in 2002, so that they would be in accordance with the Telecommunications Act and the methodology of accounting the costs of an operator of a telecommunications network as established by a decree of the Government. Eesti Telefon will comply and lower the tariffs by 1 Estonian cent.

On 1 April 2001, Eesti Telefon changed the classification and tariffs of calls. As of that date, local and long distance calls were replaced by national calls with unitary tariffs. Following the recommendations of the National Communications Board, methodologies for the calculation of end-customer and interconnection costs were unified. The same tariffs became effective for all Estonian operators. The Competition Board reacted on 24 April 2001, by ruling that, in accordance with the Competition Act, Eesti Telefon must cancel these new tariffs. Lower tariffs were recommended by the Competition Board for the service calculated on the basis of justified pricing, traditional proportions between the price-rise and the CPI growth rate, and acceptable return on equity. The Competition Board filed a case against Eesti Telefon in the Administrative Court. A fine of up to 5% of annual net sales can be imposed for abuse of the position of dominant market operator.

Eesti Telefon is of the opinion that the price between 0.008-0.02 EUR for a call within the network is cost-based. Eesti Telefon did not accept the complaint by the Competition Board, and on 23 May 2001, took the case to Tallinn Administrative Court. On 17 January 2002, Tallinn Administrative Court decided in favour of Eesti Telefon, and dismissed the Competition Board's complaint.

On 13 November 2001, AS EMT was declared to be an operator with significant market power in the general mobile service market in 2002. EMT decided to contest the Directive in court, because it found that the directive was not in conformity with law. Along with the administrative appeal, EMT also applied for suspending the performance of the directive. Court satisfied the application by its ruling of January 18, 2002, as it considered EMT's application to be grounded. AS EMT was not declared to be an operator with significant market power in interconnection services market. On 26 November, the Communications Board declared AS Eesti Telefon to be an operator with significant market power, in 2002, in the public telephone service market, public leased line service market, and public interconnection service market.

The Estonian Parliament has passed the implementation act of the property statutes, which stipulate the right of way issues for Eesti Telefon. At the moment, we have not reserved any funds for the settlement of potential landowners' claims.

Annual General Meeting

The Annual General Meeting of the shareholders of AS Eesti Telekom took place 23 May 2001. The meeting approved Annual Report 2000 and the allocation proposal for the net profit 782 thousand EUR were entered as the mandatory reserve capital. It was decided that the owners of A-shares be paid ordinary dividends of 0.26 EUR per share (in total, 35 mln EUR, or 49% of the net profit of 2000). Also, it was decided that an "extraordinary dividends" payment of 0.1 EUR per share (in total, 13 mln EUR) be made to the owners of A-shares. The owner of B-share was entitled to 639 EUR of the dividends. The rest of the accumulated net profit, in the amount of 68,312 thousand EUR, was retained undistributed.

The Annual General Meeting also authorised AS Eesti Telekom to acquire, within one year (until 23 May 2002), up to 5% of the A-series shares of AS Eesti Telekom. Up until now, no shares have been re-acquired by AS Eesti Telekom.

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
INCOME STATEMENT

In thousand of euros (EUR)

	2001	2000 (restated)
Revenue		
Net sales	265,516	251,183
Change in work-in-progress	34	-31
Capitalized self-constructed assets	5,567	0
Other revenue	2,712	2,801
Total revenue	273,829	253,953
Operating expenses		
Materials, consumables, supplies and services	82,088	59,175
Other operating expenses	30,994	27,588
Personnel expenses	34,173	30,962
Other expenses	2,768	3,417
Total expenses	150,023	121,142
Profit from operations before depreciation	123,806	132,811
Depreciation	72,965	61,950
Profit from operations	50,841	70,861
Income/ -expenses from subsidiaries and	1,715	-20
Other net financing items	-249	-757
Profit before tax	52,307	70,084
Income tax on dividends	1,977	3,474
Profit after tax	50,330	66,610
Minority interest	36	358
Net profit from ordinary activities	50,294	66,252
Extraordinary item	0	5,445
Net profit for the period	50,294	71,697
Earnings per share		
Basic earnings per share (in kroons)	0.37	0.52
Diluted earnings per share (in kroons)	0.37	0.52

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
BALANCE SHEET**

In thousand of euros (EUR)

	31 Dec 2001	31 Dec 2000 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	25,798	38,970
Short-term investments	3,872	0
Trade receivables, net	25,778	25,682
Other receivables	446	401
Accrued income	6,632	3,770
Prepaid expenses	1,805	4,091
Inventories	7,014	9,537
Total current assets	71,345	82,451
Non-current assets		
Long term financial assets	2,192	1,867
Tangible assets, net	194,036	206,696
Intangible assets, net	3,588	4,321
Total non-current assets	199,816	212,884
TOTAL ASSETS	271,161	295,335
EQUITY AND LIABILITIES		
Current liabilities		
Interest bearing loans and borrowings	5,634	10,315
Customer prepayments	590	423
Accounts payable to suppliers	16,543	23,135
Other payables	11	8
Tax liabilities	2,254	1,582
Accrued expenses	9,642	13,185
Provisions	1,114	916
Prepaid revenue	661	2,830
Total current liabilities	36,449	52,394
Non-current liabilities		
Interest bearing loans and borrowings	3,139	12,845
Other long-term payables	0	0
Total non-current liabilities	3,139	12,845
Minority interest	0	524
Equity		
Issued capital	87,804	87,804
Share premium	19,810	19,810
Statutory legal reserve	8,780	7,986
Retained earnings	64,885	42,275
Net profit for the period	50,294	71,697
Total equity	231,573	229,572
TOTAL EQUITY AND LIABILITIES	271,161	295,335

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
CASH FLOW STATEMENT**

In thousand of euros (EUR)

	12 mths 31 Dec 2001	12 mths 31 Dec 2000
Cash flow from operating activities		
Profit before tax and minority interest	52,307	70,084
Adjustments for:		
Depreciation	72,965	61,950
Profit/loss from sales and write-off of fixed assets	94	-237
Profit/loss from sale of investments	0	0
Income/ expense from subsidiaries and associates	-1,715	20
Profit/loss from value adjustment of shares	0	0
Interests income/ expense, net	-196	18
Other non-cash adjustments	-18	-43
Operating profit before working capital changes	123,437	131,792
Change in current receivables	-3,634	-21
Change in inventories	2,523	-484
Change in current liabilities (except loans)	-10,323	12,153
Adjusted cash generated from operations	112,003	143,440
Interest paid	-1,016	-1,420
Income tax paid	0	-3,241
Net cash flow from operating activities	110,987	138,779
Cash flow from investing activities		
Purchase of tangible assets	-58,335	-77,138
Purchase of licenses	-2,296	-2,035
Purchase of shares, investments and other	-8,474	-8,784
Proceeds from sales of tangible assets	730	683
Proceeds from sales of investments	3,196	6,381
Proceeds from sales of associates	2,780	0
Loans granted	-307	-6
Cash receipts from repayment of loans	5	13
Cash receipts from settlement of long-term receivables		
Dividends received	12	0
Interest received	1,296	1,419
Net cash flow from investing activities	-61,393	-79,467
Cash flow from financing activities		
Proceeds from convertible long-term debt	28	0
Repayment of convertible long-term debt	-1	0
Proceeds from nonconvertible long-term debt	0	6,024
Repayment of nonconvertible long-term debt	-6,724	-446
Proceeds from long-term borrowings	0	0
Repayment of long-term borrowings	-6,713	-21,410
Proceeds from finance lease liabilities	0	0
Payment of finance lease liabilities	-1,063	-385
Proceeds from short-term borrowings	5,000	0
Repayment of short-term borrowings	-5,000	0
Dividends paid	-48,293	-35,122
Dividends paid to minority shareholders	0	-20
Net cash flow from financing activities	-62,766	-51,359
Net increase / - decrease in cash and cash equivalents	-13,172	7,953
Cash and cash equivalents at beginning of year	38,970	31,017
Cash and cash equivalents at end of period	25,798	38,970

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
STATEMENT OF CHANGES IN EQUITY**

In thousand of euros (EUR)

	Issued capital	Share premium	Reserves	Retained earnings	Net profit for the period	Total
31-Dec-99	87,804	19,810	3,633	44,665	37,085	192,997
Net profit for the period transferred into retained earnings	0	0	0	37,085	-37,085	0
Amounts transferred to reserves	0	0	4,353	-4,353	0	0
Dividends paid	0	0	0	-35,122	0	-35,122
Net profit for the period	0	0	0	0	71,697	71,697
31-Dec-00	87,804	19,810	7,986	42,275	71,697	229,572
Net profit for the period transferred into retained earnings	0	0	0	71,697	-71,697	0
Amounts transferred to reserves	0	0	794	-794	0	0
Dividends paid	0	0	0	-48,293	0	-48,293
Net profit for the period	0	0	0	0	50,294	50,294
31-Dec-01	87,804	19,810	8,780	64,885	50,294	231,573

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
NOTES FOR THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2001
In thousands of euros (EUR)

1. Accounting policies and measurement basis used in preparation of preliminary financial statements

The preliminary consolidated financial statements for 2001 are prepared in accordance with the International Accounting Standards (IAS 34). In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2000.

In comparison to 2000, the principles for calculating income tax on dividends have been changed in accordance with IAS 12 in the consolidated financial statements. Until present time, the income tax on dividends was recorded as expense from the retained earnings. However, starting in 2001, this expense is recorded on the income statement. The financial figures for 2000 have, for comparability, been adjusted accordingly.

During 2000, the Income Tax Law of the Republic of Estonia was amended, allowing companies to use such prepayments, or to transfer the right for deduction to the resident firm or the receiver of the dividend.

As of 31 December 1999, the balance of unused excess withheld and transferred income tax on dividends of AS Eesti Telefon was in the amount of 5,445 thousand euros. The right for using the prepayment was transferred to AS Eesti Telekom as the parent company, and it was used for covering the Group's income tax on dividends paid, as follows: in 2000 – 3,468 thousand euros, and in 2001 – 1,977 thousand euros.

Historical cost has been used as the general *measurement basis*.

The consolidated financial statements include all subsidiaries that are controlled by the parent company. When an entity began, or ceased to be controlled during the year, the results are included only from the date control commenced, or up to the date control ceased. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operation policies of a subsidiary, or control the removal or appointment of a majority of a subsidiary's board of directors.

All intercompany transactions and balances have been eliminated.

Minority interests in the equity and results of the entities that are controlled by the parent company are shown as a separate item in the consolidated financial statements.

Investments in associates are accounted for under the equity method of accounting.

An associate is an enterprise in which the Group holds, directly or indirectly, more than 20% of the voting power of the enterprise, or where the Group exercises significant influence over the enterprise, but is not subject to control by the Group.

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at that date. Exchange differences are recognised in the income statement for the year.

In relation to the rendering of *services*, revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs.

In relation to *the sale of goods*, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration, associated costs, or the possible return of goods.

Interest, royalties and dividends arising from the use by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collectibility is in doubt. Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividend income is recognised when the shareholder's right to receive payment is established.

In the opinion of the Company's Management Board, the financial statements give a true and fair view of the financial position of the Company.

2. Tangible and intangible assets

In thousand of euros (EUR)

	Tangible assets	Intangible assets
<u>At cost</u>		
31 December 1999	366,943	8,450
Additions	82,645	2,919
Disposals	-26,694	-795
31 December 2000	422,894	10,574
Additions	58,695	2,382
Disposals	-14,121	-229
31 Dec 2001	467,468	12,727
<u>Accumulated depreciation</u>		
31 December 1999	179,385	3,981
Depreciation	58,906	3,044
Depreciation on disposals (-)	-22,093	-772
31 December 2000	216,198	6,253
Depreciation	69,953	3,012
Depreciation on disposals (-)	-12,719	-126
31 Dec 2001	273,432	9,139
<u>Closing net carrying amount</u>		
31 Dec 2000	206,696	4,321
31 Dec 2001	194,036	3,588

3. Investments in subsidiaries

	Ownership interest		Owner
	31 Dec 2001	31 Dec 2000	
AS Eesti Telefon	100%	100%	AS Eesti Telekom
AS Telefonipood	100%	100%	AS Eesti Telefon
AS Teabeliin	0%	60%	AS Eesti Telefon
AS Connecto	100%	100%	AS Eesti Telefon
AS EMT	100%	100%	AS Eesti Telekom
AS Esmofon	100%	100%	AS EMT
AS Esmofon Tartu	100%	68%	AS Esmofon
AS Mobile Wholesale	100%	100%	AS EMT

In February 2001, AS Esmofon acquired an additional 32% of AS Esmofon Tartu shares, thereby becoming 100% shareholder of AS Esmofon Tartu.

On 11 April 2001, AS Eesti Telefon signed a contract with AS Eniro Eesti for the sale of shares, based on which, AS Eesti Telefon sold to AS Eniro Eesti 60% of the shares of AS Teabeliin for the price of 2.8 million euros.

On 19 July 2001, an entry was made into the Commercial Register replacing the business name of a subsidiary of EMT, AS Tarvin, with AS Mobile Wholesale. The new field of activity for the subsidiary is the wholesaling of mobile phones..

4. Investments in associates

	Ownership interest	
	31 Dec 2001	31 Dec 2000
AS Intergate	50%	50%
AS Sertifitseerimiskeskus	50%	0%
AS EsData	30%	30%
AS Voicecom	26%	26%

On 16 February 2001, AS Eesti Telefon, AS EMT, and the two biggest commercial banks in Estonia, AS Hansapank and AS Ühispank, concluded a contract for jointly establishing AS Sertifitseerimiskeskus. The firm will provide certification services based upon the existing official standards. Each of the partner firms is a 25% shareholder of AS Sertifitseerimiskeskus.

5. Borrowings

In thousand of euros (EUR)

	31 Dec 2001	31 Dec 2000
Current	5,634	10,315
Non-current	3,139	12,845
	8,773	23,160

Movements in the borrowings:

Opening balance	23,160
Proceeds from borrowings	5,028
Repayments of borrowings	(19,501)
Other movements	86
Closing balance	8,773

On 18 January 2001, AS Eesti Telekom entered into a borrowing agreement with a syndicate of international banks for raising 40 million Euro. The maturity date of the loan is 5 years and the annual interest rate is Euribor+0,775%. The syndicate consists of Bankgesellschaft Berlin AG, the Dai-Ichi Kangyo Bank Ltd, Landesbank Schleswig Holstein Girozentrale, Leonia Bank plc, Swedbank and AS Hansapank.

6. Equity

(a) Changes in equity resulting from resolutions adopted by the Annual General Meeting of shareholders

The holders of ordinary shares of AS Eesti Telekom are entitled to receive dividends as declared by the general meeting, and are entitled to one vote per share at the general meeting.

The company has issued one preferred share. The holder of the preferred share is entitled to a preference dividend of 639 euros, and one vote at the shareholders' general meeting.

AGM of the shareholders of AS Eesti Telekom, on 23 May 2001, decided to pay a total of 48,292 thousand euros, i.e. 0.35 euros (i.e. 0.1 euros “extraordinary dividend”) per share to the holders of ordinary shares, and the total of 639 euros, i.e. 639 euros per share to the holder of the preferred share. Dividends in the total amount of 48,293 thousand euros were paid out on 20 June 2001 to the shareholders listed as shareholders on 6 June 2001 at 8 a.m.

It was decided to enter 794 thousand euros into the mandatory reserve capital.

(b) Re-acquiring of shares

The AGM, on 23 May 2001, authorised AS Eesti Telekom to acquire, within one year from the adoption of the resolution (i.e. until 23 May 2002) AS Eesti Telekom ordinary shares, so that the total nominal value of own shares held by AS Eesti Telekom would not exceed 1/20 of the share capital of AS Eesti Telekom, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company’s assets in excess of its share capital, reserve capital, and share premium. The amount of shares to be acquired each time, shall be determined on each occasion separately by a resolution of AS Eesti Telekom’s Supervisory Council. As of 31 December 2001, no shares have been re-acquired by AS Eesti Telekom.

(c) Employees’ share option

At the beginning of 2001, Eesti Telekom group launched a new motivation system for its employees. As a part of the system, bonds were issued by AS Eesti Telekom with the issue price of 0.64 euros per bond. The bonds are accompanied by an option that allows the holder to exchange them for the parent company’s ordinary shares either in spring 2003 (A series) or in spring 2004 (B series). The subscription price of the shares is 5.79 euros. From 18 December 2000, until 5 January 2001, 144 employees of the Group subscribed 20,750 A series bonds and 20,750 B series bonds during the primary subscription. The Management Board of AS Eesti Telekom approved all subscription applications. By 31 December 2001, bonds had been bought back from the employees who had left the Group and re-issued to newly hired managerial personnel. As of 31 December, 21,250 A series and 21,250 B series bonds had been issued, which can be exchanged for 212,500 AS Eesti Telekom ordinary share in 2003, and for 212,500 AS Eesti Telekom ordinary shares in 2004, respectively.

(d) Earnings per share

The calculation of basic earnings per share (in kroons):

$$\text{EUR } 0.37 = (50,294,000 - 639) : 137\,383\,178$$

In view of the fact that in 2001 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 4.41 euros, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

7. Provisions

A claim in the amount of 3.52 million euros had at one time been filed against AS Eesti Telefon by a company in bankruptcy, OÜ Albufent. On 6 February 2001, OÜ Albufent unconditionally withdrew the suit which it had filed against Eesti Telefon in Tallinna Municipal Court. On 19 February, Tallinna Municipal Court officially closed the case. The 2.94 mln euros reserve which Eesti Telefon had, for several years, kept for covering this contingency, could then be absorbed by way of the the income statement.

8. Segment information

A business segment is a distinguishable division of the Group that is engaged in providing a group of related services or products, and which is subject to risks and returns that are different from those of the

other business segments. Eesti Telekom Group has been divided into three segments: fixed network telecommunications, mobile telecommunications, and other activities.

- **Fixed network telecommunications** – this segment deals with operating the national telecommunications network, with providing fixed telecommunication services, and related value added services, and to provide, produce, market and sell related services. The companies belonging to this segment group are AS Eesti Telefon, AS Telefonipood, AS Connecto.
- **Mobile communications** – this segment deals with operating mobile networks and systems, and with producing, marketing and selling services related thereto. The companies belonging to this segment group are AS EMT, AS Esmofon, AS Esmofon Tartu, AS Tarvin.
- **Other activities** – this segment covers the activities of the parent company AS Eesti Telekom.

The segment turnovers presented in the report represent the inter-company income and expenses of the three segments. The inter-company turnovers of the companies belonging to the same segment have not been presented in this report.

In thousand of euros (EUR)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Revenue										
Net sales	157,214	155,502	108,302	95,681	0	0			265,516	251,183
Other revenue	6,412	1,556	1,899	1,211	2	3			8,313	2,770
Inter-segment revenue	19,937	14,883	31,487	19,132	13	16	-51,437	-34,031	0	0
Total revenue	183,563	171,941	141,688	116,024	15	19			273,829	253,953
Operating expenses										
Materials, consumables, supplies and services	44,046	30,321	38,042	28,854	0	0			82,088	59,175
Other operating expenses	23,752	21,139	6,669	5,511	573	938			30,994	27,588
Personnel expenses	26,885	25,448	6,730	4,679	558	835			34,173	30,962
Other expenses	968	1,542	1,654	1,655	126	220			2,768	3,417
Inter-segment expenses	31,475	19,126	19,930	14,871	32	34	-51,437	-34,031	0	0
Total expenses	127,146	97,576	73,025	55,570	1,289	2,027			152,023	121,142
EBITDA	56,417	74,365	68,663	60,454	-1,274	-2,008			123,806	132,811
Depreciation	52,604	44,219	20,303	17,700	81	64	-23	-33	72,965	61,950
EBIT	3,813	30,146	48,360	42,754	-1,355	-2,072			50,841	70,861
Income/ -expenses from subsidiaries and associated companies	1,832	-20	-117	0	58,441	70,144	-58,441	-70,144	1,715	-20
Other net financing items	-2,456	-3,149	631	744	1,576	1,648			-249	-757
Income tax expenses (-)/ income (+)	0	0	0	-6	-1,977	-3,468			-1,977	-3,474
Minority interest	36	296	0	62	0	0			36	358
Extraordinary item	0	0	0	0	0	5,445			0	5,445
Net profit	3,153	26,681	48,874	43,430	56,685	71,697			50,294	71,697
Non-current assets	128,366	149,999	70,960	62,562	214,865	207,379	-214,375	-207,056	199,816	212,884
Current assets	28,815	29,977	35,235	39,319	23,349	28,646	-16,054	-15,491	71,345	82,451
Total assets	157,181	179,976	106,195	101,881	238,214	236,025			271,161	295,335
Owners' equity	94,614	97,213	92,592	87,152	237,964	229,572	-193,597	-184,365	231,573	229,572
Minority interest	0	423	0	101	0	0			0	524
Non-current liabilities	23,356	34,962	532	574	29	0	-20,778	-22,691	3,139	12,845
Current liabilities	39,211	47,378	13,071	14,054	221	6,453	-16,054	-15,491	36,449	52,394
Total equity and liabilities	157,181	179,976	106,195	101,881	238,214	236,025			271,161	295,335
Cash flow from operating activities	45,293	77,582	65,482	61,992	-1,575	-2,013	1,787	1,218	110,987	138,779
Cash flow used in capital expenditure	-31,640	-53,694	-28,881	-25,364	-110	-115			-60,631	-79,173
Cash flow used in investing activities	2,402	-1,445	457	281	50,163	31,779	-53,784	-30,909	-762	-294
Cash flow from / used in financing activities	-15,885	-21,752	-44,221	-30,200	-54,657	-29,098	51,997	29,691	-62,766	-51,359
Net change in cash	170	691	-7,163	6,709	-6,179	553			-13,172	7,953